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September 24, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W. -- Room 222
Washington, DC 20554

Re: Ex Parte CC Docket No. 96-98 - Implementation of the Local Competition Provisions of the Telecommunications Act of 1996

Dear Mr. Caton:

The attached document was provided by Gerry Salemme, AT&T, today to John Nakahata, Special Assistant to Chairman Reed E. Hundt, Lauren Belvin, Senior Legal Advisor to Commissioner James H. Quello, James Casserly, Senior Legal Advisor to Commissioner Susan Ness, Daniel Gonzalez, Legal Advisor to Commissioner Rachelle B. Chong and Richard Metzger, Deputy Chief, Common Carrier Bureau.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

Brian W. Masterson

Brian W. Masterson
Director, Government Affairs

Attachment

CC: Ms. Lauren Belvin
Mr. James Casserly
Mr. Daniel Gonzalez
Mr. Richard Metzger
Mr. John Nakahata

No. of Copies rec'd 022
List A B C D E

END OFFICE SWITCHING COST PROXIES

The Commission has determined that the total cost of end office switching should be recovered through a combination of a flat-rated charge for line ports, and either a flat or usage-sensitive charge for switch usage (¶810). The Commission has also required unbundled local switching rates (defined as the line port rate divided by projected minutes of use, plus the explicit per-minute usage rate) that are not determined pursuant to a state-approved forward-looking cost study to lie between 0.2 to 0.4 cents per minute (¶815). An issue has now been raised as to whether this 0.2 to 0.4 cents per minute proxy range subsumes the "per-minutized" flat line port charge, or whether this flat charge should be in addition to per minute charges in the 0.2 to 0.4 cents per minute range. AT&T believes that the record cost evidence supports the former view.

While the Commission examined a half dozen or more cost studies/state rates for end office switching and transport and termination to determine its 0.2 to 0.4 cents per minute proxies for end office switching costs, it appears to have relied most heavily on three of these: the Hatfield study, the Maryland PUC study and GTE's implementation of the Cost Proxy Model -- which all generally confirm a total cost for end office switching in the 0.2 to 0.4 cent range.

Hatfield estimates end office switching line port costs to be about $1.25 per month, and usage costs to be about 0.2 cents per minute. If this $1.25 line port charge is "per-minutized," (at BOC-average switch usage of 1380 minutes per line per month) it would convert to a charge of just under 0.1 cents per minute. The sum of the line port and usage costs is then 0.3 cents per minute -- which lies within the Commission's stated 0.2 to 0.4 cents per minute proxy range.

Similarly, the Maryland analysis derived an end office switching cost of 0.3 cents per minute. Although Maryland does not calculate a separate line port cost, if the Hatfield line port cost ("per-minutized" at 0.1 cents per minute) were added to this figure, the resulting total cost would be 0.4 cents per minute -- which also lies within the Commission's 0.2 to 0.4 cents per minute proxy range.[1] Thus, the Commission's 0.2 to 0.4 cents per minute proxy range for total end office switching is well founded and requires no adjustments.

Furthermore, because it is far from clear that the Commission's default proxy rate range for the unbundled switch fails to include costs attributable to line ports, and because the lack of a bright line between line-driven and usage-driven switching costs requires the methodologies and assumptions used to develop the rates for the usage

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[1] Analogous analysis also shows the GTE CPM usage cost of 0.35 cents per minute to adjust to less than 0.45 cents per minute -- just slightly above the Commission's stated proxy range.

sensitive and fixed components of the switch be considered together,[2] *sua sponte* reconsideration of the default proxy rate is especially unwarranted. That is for two reasons. First, as the Commission recognized in its recent Order denying the motions for a stay pending appeal of the First Report and Order, the proxy rates may never be applied to any ILEC. If ILECs believe that any proxy rate, including the rate for the unbundled switch, is "unreasonably below costs, they have every incentive and possess the information necessary to present credible economic cost studies . . . to allow the state commissions to set prices . . . based on actual cost studies, rather than by proxies."[3] Second, the Commission can resolve these issues pursuant to reconsideration under Section 1.429 of its rules, based on a more complete record, and would also have the option of adopting an expedited pleading cycle. Such an approach would allow the Commission to issue an expeditious decision based on a complete record, thus increasing the likelihood that this aspect of its Order would survive appellate review.

AT&T
September 24, 1996

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[2] For example, a relatively high line port rate is likely to be more consistent with usage rates that lie at the bottom of a usage proxy range than usage rates that lie at the upper end of their proxy range.

[3] First Report and Order, CC Docket No. 96-98, FCC 96-98, released September 17, 1996, para. 12.